What shall our Paper Currency be?

AND...

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HOW AN UNLIMITED QUANTITY OF SILVER MAY BE USED AS MONEY.

THE CURRENCY SYSTEMS OF LEADING EUROPEAN COUNTRIES.

BY

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PREFACE.

The following pages do not contain exaustive arguments upon the momentous questions of the day, but the writer has reason to believe that they may be of assistance in arriving at a correct conclusion regarding an interest that so vitally affects the welfare of our people. He has not only studied this somewhat intricate subject at home, but in repeated visits to Europe and in a journey to some of the South American republics, has tried to learn something from observation of the financial affairs of countries visited.

That the people are looking to congress for rational and speedy legislation upon this question goes without saying. No party can long remain in power without making strenuous effort to afford the expected relief.

Madison, Wis., January, 1897.

What shall our Paper Currency be?

That there should be some national financial legislation is generally conceded. Naturally there is and must be much divergence of opinion as to what that legislation should be. Our currency system is not bad, but there is room for improvement. It has one most excellent feature. We know that the paper money is all good. In the panic of 1893, when confidence in our banks was so severely shaken, confidence in the currency was practically absolute. Paper money was received as readily as gold itself, and it was hoarded with as much reliance as to its value as was the yellow metal. This is a feature that must be preserved. There should never be even a possibility of a doubt of the absolute soundness of our paper circulation. To preserve such confidence the paper must at all times be convertible into gold, and the ability to redeem every paper dollar must be such that the most exacting will never question it.

There is but one means to give such confidence in the currency, and that is to make the government responsible for its redemption. Any other currency scheme, no matter how plausible, will be unsatisfactory.

Should the Greenbacks be Retired?

There seems to be quite a general movement to have all government paper issues withdrawn and re-placed with national bank notes. This involves a most important change and demands careful consideration. The country should be convinced that the proposed system is an improvement on the old before it is adopted.

Just how the advocates of the retirement of the government notes propose to substitute them with bank issues is as yet indefinite, as no complete plan has been formulated. But all government notes are to be retired, as the government is to go out of the "banking business."

The total amount of paper circulation in the United States is not far from 1200 millions, of which a little more than 200 millions is national bank notes, so that the government issue is about 1000

millions. All of the 1200 millions of paper is kept at par with gold, because the government either directly or indirectly redeems every dollar of it in gold.

The gold certificates can of course easily be retired, as the gold for their payment is a special deposit, and is always in the treasury. The total amount of these notes is not very large. For the redemption of the greenbacks, silver certificates, treasury notes and national bank notes (the national banks can redeem their notes in greenbacks) say 1100 millions, the government must provide.

Not Desirable to Contract the Currency.

It will generally be conceded that a contraction of our paper curreney is not desirable. What then is to be substituted for the 900 millions of government paper notes? If the government is to go out of the "banking business," there must be some other plan devised to issue this amount of paper, and of course this must be done by banks, either national or state, or both. We have had our experience with state bank notes, and want no more of it. It must therefore devolve on the national banks to issue the additional 900 millions, 1100 millions in all.

The national banks have a capital of less than 700 millions. It would hardly seem to be advisable to permit a bank to issue notes beyond its capital. Some banks would probably not issue to the amount of their capital. Where will the 400 to 500 millions come from?

How will the Banks Secure their Notes.

Even if practicable for the banks to issue the circulation, how are they to secure it? The present national bank note circulation is secured by government bonds, that is the government secures it. But even if the banks could obtain all the United States bonds in existence it would only be some 800 millions, and it is hoped that these will be paid before many years, so that no bonds can be had. The next proposal is to raise an insurance fund by levying a tax on each bank in proportion to notes issued from which to pay the bills of broken banks. This plan would be safe, provided the government has the athority to tax the banks to the full amount required to cover losses. Some banks will object to this plan because the good, well managed banks have to pay the losses of those badly managed. Some concession must in some way be made to make up for such

losses, and this concession must be at the expense of the people and objectionable to them.

But if the government is to supervise and regulate these matters, it must have machinery for doing it. It must employ men to conduct the business, and in a measure control the banks, and the government will not be out of the "banking business," concerning which there seems to be so much anxiety.

Let the Government Issue all Paper Money.

The government can furnish all paper money with profit and entire safety to itself and to the people. The only objection urged against this plan is that the government is then in the "banking business." Conceding, for the sake of the argument, that this is true; if it is better for the people generally that the government should do banking, why not do it? The government carries our letters. This is as much a private business as banking is. The government does a banking business in the postal money order department Is the issuing of notes or greenbacks banking any more than issuing and paying money orders? No one thinks of abolishing the money order system. Why abolish the greenback system?

Issuing Notes used to be no Part of Banking.

Banks are very old, but bank notes circulating as money are not old. The proper function of the bank is to receive money on deposit and to loan it out again, and to conduct the exchanges. Issuing of notes is no necessary part of banking, and the issuing of bank notes in the leading commercial countries is rapidly being confined to a single bank in each country. In England a few banks, aside from the Bank of England, still issue notes, but an increase of these notes is prohibited and as fast as such notes are retired, Bank of England notes are substituted, so that in time there will be no other bank bills than those issued by the Bank of England. In Germany precisely the same condition exists. There will be no bank notes but those of the Bank of Germany. The government issues some notes or greenbacks. Furthermore, the government reserved the right to purchase the Bank of Germany when the charter expires. The same may be said to be true of the Bank of England, because its charters run only for limited periods, and unless renewed the bank would have to be wound up.

In Austria the issuing of notes is divided between the government and the one national bank.

In Russia notes are issued only by the national bank. This bank is private, but its managers are appointed by the government.

In France the Bank of France alone issues the paper circulation.

In Denmark and Norway the paper circulation is issued only by the one national bank of each country.

It is thus seen that in all leading commercial countries all paper money is issued, or soon will be issued, either by the government or by the one government bank in each country.

THESE NATIONAL BANKS ARE INTIMATELY CONNECTED WITH THE GOVERNMENT.

While it is true that the national bank in each country is organized by private capital (in some of them the government owns shares) it is nevertheless true that so closely are these banks connected with the government that they are a part of the government machinery. In some cases the officers are appointed by the government, and in all cases the government is consulted in every important step. The bank is the financial life of the government. If for instance the Bank of England should get into difficulty, the government would certainly come to its rescue. When the bank suspends specie payments, as was the case in England during the Napoleonic wars, and as is the case in Austria and Russia to-day, it is with the consent and by the authority of the government. These banks usually place the loans of the government, and as in England, largely manage the government funds.

For all practical purposes the notes issued by the bank are national notes, or what we here call greenbacks.

In addition to issuing the notes the national bank also receives deposits, discounts paper, and buys and sells bills of exchange.

It has been stated time and time again, and by very prominent men too, that no government of any other leading commercial nation than ours is engaged in the "banking business."

We have seen how mistaken these statements are. But we can present other facts bearing on the same question. Other leading nations do direct banking business. For instance, England has a postal savings bank, receiving deposits and paying interest thereon. Is not this banking business?

Government and Private Business.

As a rule the government should confine itself to affairs of a public nature and not attempt business that private enterprise can conduct to reasonable advantage. But there are certain undertakings that can be done better by the government. Such is for instance the carriage of letters and other mail matter, and it is a question whether the postal system should not also be extended in this country as in so many other countries to larger packages. In many countries the government manages the telephone and telegraph matters; the state owns the railroads, and municipalities provide water, light, and street railways, and England even has a government savings bank and a life insurance system. There would seem to be no good reason why the government should furnish life insurance and no very weighty arguments in favor of government savings banks. In this country at least there are ample savings bank facilities. There are some cogent reasons in favor of municipal ownership of water, lighting, telephone and street railway plants, and in countries where private capital will not build railroads and telegraph lines, it is necessary for the state to do it.

It may be laid down as a general rule that private capital will conduct even these semi-public industries, that of necessity are monopolies, both cheaper and better than they can be done by the government. But when done by private capital they must be under government control to prevent abuse of privileges granted.

Furnishing circulating medium is a different matter. The constitution very wisely reserves to the general government the sole right to coin money and regulate its value. It would have been wise had the constitution also given to congress the sole right to furnish the paper circulation and provide for its redemption in gold. Unfortunately this was not done and so we are in a chronic state of uncertainty, as we have constant agitation for a change and a never-failing stream of new schemes.

The best Circulation we ever had.

No one disputes that the government note or greenback is the best paper circulation this country ever had. The national bank note is essentially the same as the greenback because it is convertible into greenbacks and has practically the same government guarantee that the greenback has. On the score of safety there is no objection

to the national bank note, provided it has the same safeguards that it now has, to-wit — a full, unconditional and positive government guaranty.

The question has frequently been asked and never satisfactorilly answered, how the national bank notes are to be guaranteed if the national banks are to furnish all the circulation. Some say that the notes should be secured by government bonds as at present, and that the government should always be in debt to the extent of 1000 to 1500 millions, or what ever the circulation may amount to, for the purpose of furnishing such security. But there are obvious objections to a government debt of any kind when it can be avoided. A nation is much stronger for being out of debt. It is true that government bonds form a very convenient and safe investment, particularly for orphans, widows, savings banks, etc. But good safe bonds of other countries that are compelled to be in debt can readily be obtained. It is not necessary that we should furnish bonds for such a purpose.

Nor would it be advisable for the government to accept railroad, state or municipal bonds, as security from the banks. We have seen too much of such transactions. It is true, that English, French and German government bonds would be pretty good security. But on account of wars and threatened wars, these fluctuate in value more or less. Still they are the best security that can be had aside from the bonds of our own government. Yet many would object to our government holding foreign government bonds.

Objections Raised Against the Greenback.

It is objected that the greenback was a war expedient, and should therefore be abolished. The same objection obtains against the national bank notes and against the national bank itself. Both were war expedients, both were inaugurated to force a market for government bonds. But both have proved themselves beneficial to the country. The national banking system is the best banking system in the world. These banks are owned and managed in their respective localities, and operated in the local interests. They are infinitely preferable to the gigantic foreign banks with immense capital and branches all over the country, such branches being operated in the interest of the stockholders residing at the money centers. When one of these great banks is mismanaged and fails,

like the Barings, the whole financial world is shaken, and there is wide spread ruin and misery.

Our National Banking System very Beneficial.

The national banking system, though a relic of the war, has proved itself exceedingly beneficial and the agitation for its abolition is most unwise. The law establishing it was judicious and but few amendments have been made. If further amendments are required they should be enacted. But to retire the greenbacks and substitute bank notes is a different matter. To issue notes is no necessary part of banking. Almost every business man issues notes, but this does not make him a banker. There are many state and private banks and they issue no notes, yet are not the less banks than are the national banks. And there are many national banks that practically issue no notes because they do not find it profitable under the present law, yet they are as effective and as serviceable as those that do issue notes.

Gold Redemption of Bank Notes.

Suppose that the government notes be all retired and the national banks issue the whole 1100 millions, how will their redemption in gold on presentation be provided for? It is not proposed to make our bank notes legal tender like the greenback or Bank of England notes. The banks will have to provide the gold for their redemption. Nor will it be satisfactory to have the notes redeemed at the bank's counter only, as the notes of banks in smaller towns would then be at a discount. Every bank would have to have a redeeming agency in some money center like New York or Chicago, where the notes could be redeemed at par.

Under the present greenback system a gold redemption reserve of 100 millions has been found sufficient to keep the whole paper issue of 1100 millions at par with gold, and for the whole period, from Jan. 1st, 1879, until 1893, 14 years, that reserve was never below 100 millions, was in fact never drawn upon, simply because the note holders knew not only that the 100 millions were on hand, but that the law provided for the sale of bonds to redeem every greenback and treasury note outstanding and that the redemption of all paper money was provided for. It was only when the government began to use the gold reserve, not to redeem notes, but to pay

ordinary government expenses, that some people began to doubt whether the government would have the means to redeem the notes, that gold was drawn upon them for the purpose of hoarding. Had the government revenue been sufficient and the 100 million reserve consequently been intact, there is no more reason to suppose that gold would have been drawn after 1893 than during the prior 14 years.

Banks must Provide the Gold.

But when the banks must provide for gold redemption and the government has nothing to do with it, the case will be different. Every bank must have gold enough on hand to meet its notes on presentation. The plan is to relieve the government entirely from keeping any redemption fund, even if the government guarantees the bank notes. What proportion of gold to circulation would the banks have to have in order to be safe? The Bank of England issues notes on what government securities it may hold, which is about 75 million dollars, and on all issues beyond this sum it must have dollar for dollar in gold. That is, the notes have as security either government bonds or gold in the vaults to cover the whole issue. Hence Bank of England notes are as good as the government itself.

To make our bank notes as good as the Bank of England notes, and they ought to be just as good, they must be based either on government bonds or on gold on hand. And the Bank of England issues more notes on gold actually on hand than on government bonds. In the same proportion a national bank issuing 100 thousand dollars in notes would have on hand 50 thousand dollars in government bonds and 50 thousand dollars in gold. With such an amount of gold on hand there would here, as in England, be little danger of suspension of gold payments.

But look at the amount of gold it would take to float 1100 millions of paper. The banks would be compelled to have 550 millions dollars in gold in their vaults.

But suppose our laws be made somewhat more lenient than the English law, would any bank be in safe condition that did not have 25 to 35 per cent. of its circulation on hand in gold? Call it 30 per cent., and the gold in the banks must be at least 330 millions in place of 100 millions, which has proved sufficient when the government issues the notes. That would throw 230 millions of gold out

of circulation, and contract the currency that much. Is that good economy? Bear in mind that one of the main arguments for the retirement of the government notes is to get the government out of the "banking business" and to relieve it entirely from the necessity and responsibility of providing any gold for note redemption. The banks are to assume the whole burden.

Can the Government Provide all the Gold Needed for Export?

The government can certainly provide all necessary gold for home use and for export as well as the banks can do it. It may be argued that even if the government possessed all the gold in the country it may be drawn out on greenbacks and exported. So it may, and so it may if the banks are to furnish the gold. There is, however, this difference. The government has the bonds to sell, which will bring the gold into the country in sufficient quantity to redeem all the greenbacks. But there was no serious difficulty during the 14 years that the government did redeem all greenbacks presented, without encroaching on the 100 million reserve. If we have a good safe monetary system, the moment money becomes scarce and the rate of interest advances, money will flow in from other countries for investment. Herein lies the true source of currency elasticity. In England, for years past, call loans have been made at even less than 1 per cent. per annum, and loans have been made on commercial paper at 2 to 3 per cent. The Bank of England recently raised its rate of discount, which had been as low as 2½ per cent., to 4 per cent., but money can be had from other banks and from private sources as low as 3 per cent, on first class commercial paper.

Give us good stable laws and the gold question will settle itself. Money will flow this way for investment, and the gold supply in this country will increase, not decrease.

Elasticity of the Currency.

One favorite argument in favor of the bank note system is that it is "elastic" and that under it the banks will expand the currency in time of stress, thus increasing its volume just when needed. Never was argument more fallacious. Whenever there is a threatening cloud in the financial sky every bank begins to contract, not expand. It stops making new loans and calls in those outstanding as far as

practicable. If it has gold notes out it will not increase them when people are calling for and hoarding gold. Were it compelled to have a gold dollar on hand for every paper dollar issued there would be no objection to issuing more notes, but that would not expand the currency. It is true that under the present system currency can be obtained by depositing government bonds. But one who has United States government bonds is not very much troubled about raising money on them. And bear in mind under the proposed plan the bills obtained on such bonds would draw the gold from the bank issuing them, hence there would be no motive for expansion.

There is no elasticity to the paper currency in England otherwise than that for every paper dollar "expanded" there must be a dollar in gold in the bank. The same is true in most of the leading countries that have the gold standard.

Give us good banks and fully secured currency, such as the people will have implicit confidence in, and no more elasticity will be needed here than in England.

One Kind of Paper Money.

Why should not the government issue all paper money? As has been shown, we would but follow the example set by other leading nations, though they do it through one national bank. Here we have no such bank. We once had one but it was abolished. Let all the currency be issued by the government. Stop issuing national bank bills, and as fast as the present ones are voluntarily retired issue greenbacks in their place, so as to not contract the currency. Increase the volume of notes each year in same proportion as the population increases, so as to have the same amount of paper money per capita.

Greenbacks would Circulate Abroad.

A still wider field for the circulation of our government notes may be had by having one or more redeeming agencies in Europe, say one in London, one in Paris and one in Berlin. One in London only would make our greenback as good as the Bank of England notes. People going to Europe could then take greenbacks with them, as they would bring the gold in every place where the Bank of England notes would bring it, and that is everywhere in Europe. No large amount of gold need lie idle at such agencies. Some bonds could be on hand ready for sale if the gold supply should run short.

Provide for Gold Redemption.

Authorize the Secretary of the Treasury to issue long time 2½ per cent. bonds, principal and interest payable in gold, sufficient when sold to pay all outstanding notes, keeping all the time in the treasury a gold reserve of 100 millions as heretofore. This is an ample reserve, as was proven by 14 years' experience, and will always be ample.

The reason the gold reserve was encroached upon was because it was used to pay ordinary government expenses, the revenue being insufficient. Let the reserve be used only for note redemption, and the proceeds of the bonds issued for redemption purposes be used only to keep the reserve good, and there will never be any trouble with the reserve. The ordinary government expenses must be met by tariff duties, internal taxes and other resources. Keep the redemption reserve and the redemption bonds intact.

With such provision for note redemption, who would ever want gold at all except for paying foreign debts ? People decidedly prefer paper to gold, provided there is no possible question about gold redemption when gold is wanted.

No gold would ever be wanted for circulation at home, nor would there be any possible motive for hoarding it. Practically all the gold in the the country would find its way to the United States treasury and gold certificates would be issued thereon which would circulate as gold.

Such notes or greenbacks would be the best paper circulation in the world because it would have the best security. It would be better than the Bank of England notes because our bonds are better when they are unequivocally payable in gold. Our bonds are the best security on earth. We have but a small national debt and that will be paid before many years. We have greater ability to pay than any other nation, and we are not threatened with wars that may depreciate our bonds.

Greenback Currency may be Elastic.

We do not need elasticity in the currency any more than does England, which confessedly now has the best financial system in the world. But the greenback currency may easily be made elastic, and elastic in time of need, if need should ever come, which is doubtful.

The government could keep a supply of 100 millions of "emergency greenbacks," to be loaned to any national bank for a term not exceeding 90 days, and to an amount not more than 20 per cent. of the capital of the bank, and at a high rate of interest, say 8 per cent. Bonds of our own government, or of such countries as England, France or Germany preferable, but as the loan would be a short one, other good security might be accepted. But any bank contemplating taking a loan should file with the government a list of such securities as it might intend to offer, so that they could be examined by the bank examiner beforehand. Certainly the government would run no considerable risk on such emergency loans. No bank would want a loan at 8 per cent long.

This would be a really elastic currency. The emergency notes could be quickly issued, so as to be of service when most needed.

No Panics under Good Laws.

Under good and stable financial and industrial laws there would never be such a thing as a panic. Panics and crises are invariably the fruits of unwise legislation or of threatened legislation. Times will not always be equally prosperous. There will be fluctuations caused by good or bad crops in this and other countries, by great calamities, like the burning of a great city, by wars, etc. But there will never be a panic when the laws are good. Every panic that this country has gone through is traceable to unwise laws. For instance, the panic of 1857 to a bad banking system. The panic of 1873, to paper inflation as a result of the war, the war itself being the result of bad laws, and the panic of 1893, as result of impending change in our industrial laws.

Economy of Government Currency.

There is no small saving to the government in a national currency. Take the 1100 millions in notes of all kinds and suppose them all issued by the government, and that there is a gold reserve of 100 millions. The government has thus a loan of 1000 millions without interest, which at 3 per cent. is 30 millions per year, less what tax might be imposed on bank notes. Suppose the banks issued the 1100 millions, they would get the 30 millions of interest, less the interest on their gold reserve.

Now, it might be that the bank circulation would be so much more advantageous to the country than the greenback circulation

that the government could well forego the 30 millions of interest. But the friends of the bank notes will have to prove their side of the case.

Lack of Stability.

If the banks and not the government should derive the benefit from the circulation there would be constant agitation for a change to greenbanks so as to save the interest. Prejudice, even if not well founded, would be engendered, and it might lead to the wiping out of the whole national bank system to the great detriment of the banks and to the whole country. It would be better for the banks to have nothing to do with furnishing the currency. There will then be no agitation against them, no prejudice to overcome.

The "Endless Chain" Argument.

It has been objected to the greenbacks that it forms an "endless chain" for drawing gold from the treasury. It most certainly does. The greenbacks are demand notes, payable in gold. The government received gold or its equivalent for them when it issued them. It receives gold or equivalent every time it pays them out. Greenbacks merely represent a non-interest bearing loan to the government, just as bank bills represent a non-interest bearing loan to the banks. The bank notes would be an "endless chain" for drawing gold from the banks, but the banks would be paying out only what they had received and been using for a time without interest. In both cases the gold belongs to the note holder, he uses the note only because it is more convenient than the gold.

The Bank of England Plan.

But it is argued that the Bank of England never re-issues a note when it is redeemed, but destroys it, and that they have no endless chain there. It is true that the Bank of England never re-issues a note, but the endless chain is there just the same. The theory of the bank is that anyone may doposit gold in the bank and recieve therefor a certificate of deposit or note, which is legal tender, the same as the gold is that is deposited, and when the gold is withdrawn the certificate or note is paid and destroyed. It would, however, make no difference to anyone if the redeemed notes were re-issued for a new deposit instead of being at the expense of printing new ones every time. The non-reissue has no effect or influence

on the deposit or withdrawal in any way. The Bank of England is not required to have gold on hand to meet the notes it issues on its government bonds, this issue being limited to 15 millions sterling. It must have the gold for all notes issued over and above the bonds it holds.

What shall be done with the Silver in the Treasury?

The coin value of the coined and uncoined silver in the government treasury is some 500 millions. On the greater part of this, silver certificates of deposit or silver notes are issued, and they circulate at par with gold, because though payable in silver they are in point of fact redeemed in gold under the law of 1890, which says that it is the established policy of the government to keep gold and silver at parity. That is it is our established policy to keep the silver dollar as good as the gold dollar, and the gold dollar as good as the silver dollar. The only way to do this is to make the one redeemable in the other.

But when the silver notes are in fact redeemable in gold, and not in silver, why keep this mass of silver in the treasury earning nothing? Who can answer that question? It cannot be used to redeem the silver notes except by selling it for gold, and then it brings but 50 cents on the dollar. The silver is in fact not used. The people do not want it, but prefer the paper notes, which are good as gold because they bring the gold.

Then why not sell the silver in the treasury for what it will bring, and get the benefit of the interest? At present prices it would bring about 250 million dollars, or about the amount of the loans recently made to pay the running expenses of the government. This silver might have been sold and the loans would then have been unnecessary. The interest on this 250 millions would thus have been saved, and there would have been no contraction of the currency whatever.

The people have lost enough on these most unwise silver transactions, which had to be made under the Bland law of 1878 and the Sherman law of 1890. At present prices, there is a loss of about 150 millions of dollars on the amount of silver in the treasury, besides the interest thereon for many years. The whole loss up to this time, counting interest, is more than 200 millions.

The silver in the treasury should of course be sold gradually so

as to not depress the market more than necessary. Once disposed of it is more than probable that the price of silver will advance. This great amount of useless silver must be sold some time. It should be made to do service as quickly as possible.

Greenbacks Popular.

It should be borne in mind that greenbacks are popular. They are no experiment. People are familiar with them. The system has worked well. To change it to a bank note system is more or less of an experiment. It involves great agitation and discussion. There will be more or less uncertainty involved in so great a change.

State Bank Circulation.

We have more or less agitation in favor of a state bank circulation, same as we had before the war. With a good government circulation the state banks might with entire safety be permitted to issue notes again. Such notes would then do no harm, simply because they would not circulate. The so-called Gresham law — that poorer money always drives the better money out of circulation and retains the poorer, applies unerringly to metalic money, which circulates on its merits, but does not apply to paper notes redeemable in gold. People in Wisconsin would not accept a note on a bank in Texas, and it would quickly be sent home for redemption. It would never pay to issue state bank notes, because if they could be floated at all they would almost immediately be presented for gold payment. The only advantage that could be derived from permitting the issue of state bank notes would be to stop a clamor. But even this is no slight advantage.

The Silver Problem.

How Silver may be used with Entire Safety.

The people will certainly look to congress for a rational and permanent solution of the silver question. Fortunately the problem is not one of great intricacy or difficulty. It needs but the touch stone of common sense to settle it so that it will stay settled for all time, and that too, upon a basis so firm that neither visionaries nor demogogues will ever again be able to use it to seriously disturb the business interests of the country. But congress must act, and that too with reasonable promptness.

International Bimetaiism.

The agitation for "international bimetalism" will do very well as pyrotechnics, but beyond this is of no service. True, there are some good people who really believe in the possibility of an international bimetalic agreement that will satisfy our free silver sentiment. But anyone who has any knowledge of European opinion knows that this is utterly impossible. Practically there is no sentiment in favor of unlimited silver coinage in Europe. There has been none in England for a hundred years. Germany had foresight enough to dispose of her silver while it brought a fair price. France and the Latin union ceased to coin silver legal tenders long since, and there is no thought of renewing it. Russia and Austria have both reorganized their monetary systems, but on a gold basis, without giving silver even serious consideration.

But it is due to the good people who hold that an international agreement is possible that the government put forth its best efforts to bring it about.

Europe a Consumer, not a Producer of Silver.

It should be remembered that Europe is a consumer not a producer of silver. Our free silver men hope through international agreement to enhance the price of silver. Europe uses a large amount of silver in arts and manufactures, and must buy it from

the new world, as very little is produced in the old. As the people wish to procure the silver at the lowest price they certainly will not co-operate with silver producers to increase its cost. It is not by any means certain that an international bimetalic agreement would advance the price of silver, but should it have that tendency it is certainly for the interest of the people of Europe to oppose it.

Let us glance at another feature of the question. Most people believe that the only possible way to maintain the two metals at parity at the present coinage ratio is to make the one redeemable in the other, as it is now done in this country. Does any one really suppose that Europe will enter into an agreement to redeem fifty cent American silver dollars with one-hundred cents in gold? A mere statement of the question is sufficient answer.

Intrinsic Value.

The idea that government fiat can create value will not be here discussed. To rational minds experience settled this question long since. Money, real money or the measure of value, must have real, self contained value precisely the same as the object whose value is measured. The precious metals are measures of value simply because they have the same value without the government impress as they have with it. A government note has value only as coin may be obtained for it. A silver dollar has one-hundred cents value only because the government practically redeems it in gold. But for this redemption it would be worth but fifty cents in gold.

Gold as coin has only the value it will bring uncoined. Why should silver have any greater value coined than uncoined? The only true and permanent solution of the silver question is to put both metals upon exact equality before the law.

Government Coinage not Essential.

Suppose the government did not coin money at all (except divisional coin, which are really promises to pay) would that stop the use of gold and silver as a measure of value or circulating medium? Would it even reduce the value of the metals? Not at all. They would soon be coined by private corporations who would make a charge for coining and guarantee weight and purity. The ceasure of government coinage would cause no serious business disturbance. This would be infinitily more safe and sensible than to

permit banks to issue promises to pay on any security short of the government guaranty.

We have presented this illustration not to advocate the abolition of government coinage, but to emphasize the fact that the government impress upon coin is not a feature that affects its value.

Free Coinage of both Metals.

There are two methods under which both metals may be coined without limit. Under the present law gold is coined without limit, but being the standard or measure of value there is no ratio. It is made legal tender except where otherwise agreed. The legal tender feature can without serious detriment be abolished except as to existing contracts.

Coin silver in precisely the same way, at the present ratio, without making it legal tender unless so agreed. Every business transaction will be based on either gold or silver as may be agreed. All that would be necessary would be in quoting price to name so many dollars gold or so many dollars silver. All stores, railroad stations, etc., could have signs up that all prices and rates were quoted in gold, or silver.

If a dispute should arise as to which metal was intended the courts would have to determine.

But practically there would be no difficulty. Business would continue to be conducted on a gold basis, yet every one would be free to make a silver price, and the outcry that gold had any advantage must disappear, and the silver question would be a thing of the past. The government would have nothing whatever to do with the money question except to coin what gold and silver might be presented. The coinage would be simply a guaranty of weight and fineness.

Second Method.

A second method is to coin gold, making it legal tender except where otherwise agreed, as at present. Coin silver also without limit, but make it legal tender only at its market value. Under this plan also it will be on an equality with gold as the latter circulates only at its intrinsic or market value. As silver is heavy and costly to transport, let it be made legal tender at its market value less cost of transportation to money centers, fixing such transportation at say 1 per cent. Practically it would never be used as legal

tender except possibly in times of great stress and then the debtor could well stand the loss of the 1 per cent. But in practice the express companies would give the gold for silver at any office at a margin covering express charges, so that really silver would not be used as legal tender at all.

A telegram from the director of the mint could give the market value of silver any day.

Under either method all silver presented might be coined into dollars, or better into five, ten or twenty dollar pieces for convenience. The coinage would be the government guaranty of weight and fineness.

Banks to use Silver as Reserve.

Under this system the banks could with entire safety hold silver as a reserve and otherwise employ it, because it could be used as legal tender in case of emergency, even though such use might result in a small loss. Investments will then be made in silver more readily than in other commodities because it is really cash on call, and this will have a tendency to increase its price.

What shall be done with the Silver in the Government Treasury?

There are some five-hundred millions coined and uncoined silver in the Treasury. What shall be done with it? It is not wanted in circulation, paper being preferred. This paper is practically redeemed in gold. Of what use, then, is this silver hoard? So let it be sold gradually and the proceeds used to redeem government bonds and cancel the debt. The five hundred millions will bring two hundred and fifty millions in bonds and stop interest and thus be of service. Now it is earning nothing.

Our bad Silver Policy.

Our late silver purchasing policy was a very bad one. It was inaugurated for the avowed purpose of advancing the price of silver. It had exactly the opposite effect.

Suppose the government in order to increase the price of wheat should buy a great quantity of it from farmers and store it in warehouses. Would that enhance the price of wheat? On the contrary, the filled storehouses in sight of the consumers who would know that it must be sold would cause a reduction in price, not an

advance. So when useless silver accumulated under the act of 1878, and still faster under the act of 1890, prices receded, and would have receded still faster had the purchase continued. It is with silver as with every other commodity. A great accumulation that the consuming public knows must be sold some time, will as certainly cause a decline in price as the morrow's sun will rise. And once down it is difficult to raise the price. Only actual scarcity will bring prices up again. The silver men made an unpardonable mistake when they forced the government to interfere with the natural law of supply and demand, and compelled an artificial accumulation for which there was no natural demand, and the universal policy has had its proper reward in a greatly reduced price.

Let nature take its course. Silver like gold is admirably adapted for a medium of exchange. These metals will never go out of style. Their value will vary in accordance with natural law as will the value of other property. The government exceeds its functions when it attempts to arrest the natural laws of trade. It is the business of government to afford all proper facilities for and aid production, but not to interfere to affect prices.

A Monetary Commission.

A commission to consider the whole monetary question might be advisable. But a congressional committee sitting during the recess is but a commission and as the whole subject would go before committees any way, it would seem that a committee of congressmen is preferable to a commission.

Is Substantially the Windom Plan.

The policy herein briefly outlined is in effect the same as that urged by the late Secretary Windom, that is, the use of silver at its market value. And this policy is not a new one. It is as old as commerce. Empiricists have occasionally attempted to interfere with it only to invite a well merited punishment.

The writer has conversed with not a few free silver men and in nearly every instance they have expressed themselves as satisfied with the plan proposed.

A GOVERNMENT SAVINGS BANK.

There are some very forcible objections to a government savings bank in this country. Suppose the amount of savings now in savings banks and other banks was deposited in a government savings bank. The total amount of savings deposits in all kinds of banks is several thousand millions. It is not contended that all savings deposits would go into the government savings bank, but if the rate of interest is reasonable, certainly a large proportion of the savings would ultimately go there. And what would this money be used for? In the first place probably to pay or purchase all outstanding government bonds. But this would merely change the indebtedness. It is, or ought to be the policy of this country to be out of debt. A government savings bank necessarily implies a government indebtedness mounting probably into the thousands of millions, a debt, too, practically payable on demand. And when the bonds are paid, what will the government use the money for? It would have to be used to reduce taxes. But suppose war should threaten, and there should be a general withdrawal of savings deposits? Taxes could not be levied and collected suddenly. How would the demand be met? Chiefly by the issue of bonds, but on the brink of war when bonds would probably have to be issued for war purposes, this would be likely to involve serious consequences.

If a government savings bank is to be established at all the interest rate should be very low, and the amount allowed to be deposited by each person very small. But then the advantage would be very limited, hardly sufficient for the complicated machinery and great number of government employees that would be required.

It is different in the old countries where the governments must borrow money anyway, and are glad to procure it through a savings bank.

There are some forcible arguments in favor of the government guaranteeing depositors in all national banks, so that a deposit in a

national bank would be as safe as if placed in the United States treasury itself. The government could readily re-imburse itself for all losses on failed banks by a tax on deposits. Less than one-eight of one per cent. on deposits annually, would more than have paid all losses to depositors in national banks from their organization to the present time. A government guaranty would work absolute security against bank panics or "runs", precisely as a government guaranty of national bank notes makes them so secure that no note holder cares whether the bank breakes or not. The government guarantees the note, and that is sufficient. So it would be with the depositors.

The banks could well afford to pay the one-eight of one per cent. tax on deposits for immunity against runs, yes even one-fourth per cent., and more, as they could loan out closer and get more interest.

In point of fact a depositor in the Bank of England is guaranteed by the government, though the law does not in terms so provide. But the English government could never afford to let the Bank of England fail. It would be a national irreparable disaster, and depositors in the bank feel just as safe as if it was a direct deposit in the government treasury. The same is true as to France, Germany and other countries.

When we consider that the national banks in European countries have branches in all larger towns it is readily seen that depositors may have their money where it is perfectly safe. Depositors in the Bank of England, however, get no interest.

The design of this paper was merely in the briefest manner possible to give hints, not to present exhaustive arguments. It is hoped that congress will at the earliest day practicable give the monetary question due consideration and that wise solution will result.

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